

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name TOWNSHIP OF CHASSELL	County HOUGHTON
Fiscal Year End MARCH 31, 2007	Opinion Date SEPTEMBER 28, 2007	Date Audit Report Submitted to State SEPTEMBER 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) BRUCE A. RUKKILA, CPA, PC		Telephone Number 906-482-6601		
Street Address 310 SHELLEN AVENUE		City HOUGHTON	State MI	Zip 49931
Authorizing CPA Signature <i>Bruce A. Rukkila, CPA</i>		Printed Name BRUCE A. RUKKILA, CPA		License Number 263812

TOWNSHIP OF CHASELL
HOUGHTON COUNTY, MICHIGAN

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTAL FINANCIAL INFORMATION

March 31, 2007

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INDEPENDENT AUDITOR'S REPORT

Honorable Supervisor and Board of Trustees
Township of Chassell
Chassell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Chassell as of and for the year then ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Chassell as of March 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007, on our consideration of the Township of Chassell, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Township of Chassell has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township's basic financial statements. The supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements and have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

September 28, 2007

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

TOWNSHIP OF CHASELL
STATEMENT OF NET ASSETS
March 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 469,452	\$ 88,702	\$ 558,154
Receivables	8,327	16,000	24,327
Internal balances	49,719	(49,719)	-
TOTAL CURRENT ASSETS	<u>527,498</u>	<u>54,983</u>	<u>582,481</u>
NONCURRENT ASSETS:			
Restricted cash	-	322,778	322,778
Capital assets	1,347,707	5,806,592	7,154,299
Less: accumulated depreciation	(631,172)	(1,507,577)	(2,138,749)
TOTAL NONCURRENT ASSETS	<u>716,535</u>	<u>4,621,793</u>	<u>5,338,328</u>
TOTAL ASSETS	<u>\$ 1,244,033</u>	<u>\$ 4,676,777</u>	<u>\$ 5,920,809</u>
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable and accrued expenses	\$ 29,900	\$ 5,170	\$ 35,070
Bonds payable, current maturities	-	36,000	36,000
TOTAL CURRENT LIABILITIES	<u>29,900</u>	<u>41,170</u>	<u>71,070</u>
NONCURRENT LIABILITIES:			
Bonds payable, less current maturities	-	1,692,000	1,692,000
Deferred revenue	-	31,250	31,250
TOTAL NONCURRENT LIABILITIES	<u>-</u>	<u>1,723,250</u>	<u>1,723,250</u>
TOTAL LIABILITIES	<u>29,900</u>	<u>1,764,420</u>	<u>1,794,320</u>
NET ASSETS:			
Invested in capital assets, net of related debt	716,535	-	716,535
Contributed capital	-	3,034,958	(3,034,958)
Retained earnings	-	(122,601)	(122,601)
Reserved	2,171	-	2,171
Unreserved	495,427	-	495,427
TOTAL NET ASSETS	<u>1,214,133</u>	<u>2,912,357</u>	<u>4,126,489</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,244,033</u>	<u>\$ 4,676,777</u>	<u>\$ 5,920,809</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CHASSELL
STATEMENT OF ACTIVITIES
March 31, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<u>FUNCTIONS/PROGRAMS</u>							
Primary government:							
Government activities:							
General government	\$ 133,730	\$ 55,828	\$ -	\$ -	(77,902)	\$ -	(77,902)
Public safety	15,374	-	-	-	(15,374)	-	(15,374)
Public works	196,739	-	-	-	(196,739)	-	(196,739)
Parks and Recreation	58,694	-	5,000	-	(53,694)	-	(53,694)
Other	40,686	-	-	-	(40,686)	-	(40,686)
Total governmental activities	445,223	55,828	5,000	-	(384,395)	-	384,395
Business-type activities:							
Water	111,381	135,050	-	-	-	23,668	23,668
Sewer	86,652	127,898	-	-	-	41,247	41,247
Total business-type activities	198,033	262,948	-	-	-	64,915	64,915
Total primary government	\$ 643,256	\$ 318,776	\$ 5,000	\$ -	(384,395)	64,915	(319,480)
General Revenues:							
Taxes							
Property taxes, levied for general operations					160,668	-	160,668
State shared revenue					138,048	-	138,048
Interest and investment earnings					12,859	5,598	18,457
Other					37,837	4,004	41,841
Total general revenues, transfers, and special items					349,412	9,602	359,014
Change in Net Assets					(34,983)	74,517	39,534
Net Assets - Beginning					1,249,116	2,837,840	4,086,956
Net Assets - Ending					\$ 1,214,133	\$ 2,912,357	\$ 4,126,489

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CHASSELL
BALANCE SHEET - GOVERNMENTAL FUNDS
March 31, 2007

	<u>Major Funds</u>		<u>Non-major</u>	<u>Total</u>
	<u>General</u>	<u>Road</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Improvement</u>	<u>Funds</u>	<u>Funds</u>
		<u>Fund</u>		
ASSETS:				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 178,939	\$ 279,265	\$ 11,248	\$ 469,452
Taxes receivable	3,280	5,047	-	8,327
Accounts receivable	-	-	-	-
Due from other funds	49,719	24,796	440	74,955
Due from component unit	-	-	-	-
Due from governmental units	-	-	-	-
TOTAL CURRENT ASSETS	<u>\$ 231,938</u>	<u>\$ 309,108</u>	<u>\$ 11,688</u>	<u>\$ 552,734</u>
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable	\$ 23,653	\$ -	\$ -	\$ 23,653
Accrued expenses	712	-	4	716
Accrued salaries	5,482	-	50	5,532
Due to other funds	25,236	-	-	25,236
Due to other governmental units	-	-	-	-
Deferred revenue	-	-	-	-
TOTAL CURRENT LIABILITIES	<u>55,083</u>	<u>-</u>	<u>54</u>	<u>\$ 55,136</u>
FUND BALANCES:				
Restricted	-	-	2,171	\$ 2,171
Unreserved	176,855	309,108	9,463	495,427
TOTAL FUND BALANCES	<u>176,855</u>	<u>309,108</u>	<u>11,634</u>	<u>497,598</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 231,938</u>	<u>\$ 309,108</u>	<u>\$ 11,688</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>716,535</u>
Net assets of governmental activities	<u>\$ 1,214,133</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CHASELL
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended March 31, 2007

	<u>Major Funds</u>		<u>Other Non-major</u>	<u>Total</u>
	<u>General</u>	<u>Road</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Improvement</u>	<u>Funds</u>	<u>Funds</u>
		<u>Fund</u>		
Revenues:				
Taxes	\$ 71,443	\$ 89,225	\$ -	\$ 160,668
State revenue	137,169	-	879	138,048
Grant revenue	5,000	-	-	5,000
Administration & collection fees	12,669	-	-	12,669
Charges for services	55,828	-	-	55,828
Interest	4,624	8,114	121	12,859
Other revenue	25,154	-	14	25,168
Total revenues	<u>311,887</u>	<u>97,339</u>	<u>1,014</u>	<u>410,240</u>
Expenditures:				
General government	98,382	-	-	98,382
Public safety	15,374	-	-	15,374
Public works	288,845	67,001	-	355,846
Parks and recreation	48,722	-	2	48,724
Other	40,327	-	360	40,686
Total expenditures	<u>491,649</u>	<u>67,001</u>	<u>362</u>	<u>559,012</u>
Excess (deficiency) of revenue over expenditures	<u>(179,763)</u>	<u>30,338</u>	<u>652</u>	<u>(148,772)</u>
Other Financing Sources (Uses)				
Net change in fund balance	<u>(179,763)</u>	<u>30,338</u>	<u>652</u>	<u>(148,772)</u>
Fund Balances - Beginning of Year	<u>356,618</u>	<u>278,770</u>	<u>10,982</u>	
Fund Balances - End of Year	<u>\$ 176,855</u>	<u>\$ 309,108</u>	<u>\$ 11,634</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures. This amount represents depreciation.

113,789

Change in net assets of governmental activities

\$ (34,983)

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CHASSELL
PROPRIETARY FUNDS
BALANCE SHEET
Year Ended March 31, 2007

	<u>Business-Type Activities</u>		
	<u>Major Funds</u>		
	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ (18,426)	\$ 107,128	\$ 88,702
Accounts receivable	8,744	7,256	16,000
Total current assets	<u>(9,682)</u>	<u>114,384</u>	<u>104,702</u>
Restricted cash	<u>234,886</u>	<u>87,892</u>	<u>322,778</u>
Property, plant, and equipment	3,832,307	1,974,285	5,806,592
Accumulated depreciation & amortization	<u>(730,113)</u>	<u>(777,463)</u>	<u>(1,507,577)</u>
	<u>3,102,194</u>	<u>1,196,822</u>	<u>4,299,015</u>
TOTAL ASSETS	<u>\$ 3,327,397</u>	<u>\$ 1,399,098</u>	<u>\$ 4,726,496</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 267	\$ 246	\$ 513
Accrued expenses	458	1,145	1,603
Accrued salaries	1,651	1,402	3,053
Deferred revenue	-	31,250	31,250
Due to other funds	29,237	20,482	49,719
Current maturities on long term debt	<u>20,000</u>	<u>16,000</u>	<u>36,000</u>
Total current liabilities	<u>51,614</u>	<u>70,525</u>	<u>122,139</u>
Long-term liabilities:			
Bonds/note payable	<u>927,000</u>	<u>765,000</u>	<u>1,692,000</u>
TOTAL LIABILITIES	<u>978,614</u>	<u>835,525</u>	<u>1,814,139</u>
FUND EQUITY:			
Contributed capital	<u>2,823,797</u>	<u>211,161</u>	<u>3,034,958</u>
Retained earnings:			
Reserved	<u>(475,013)</u>	<u>352,412</u>	<u>(122,601)</u>
Total retained earnings	<u>(475,013)</u>	<u>352,412</u>	<u>(122,601)</u>
TOTAL FUND EQUITY	<u>2,348,784</u>	<u>563,573</u>	<u>2,912,357</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 3,327,397</u>	<u>\$ 1,399,098</u>	<u>\$ 4,726,496</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CHASELL
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN RETAINED EARNINGS
Year Ended March 31, 2007

	<u>Business-Type Activities</u>		
	<u>Major Funds</u>		<u>Total</u>
	<u>Water System</u>	<u>Sewer System</u>	
OPERATING REVENUES:			
Charges for services	\$ 135,050	\$ 127,898	\$ 262,948
Other revenue	850	3,154	4,004
TOTAL OPERATING REVENUES	<u>135,900</u>	<u>131,052</u>	<u>266,952</u>
EXPENSES:			
Salaries, wages, and fringe benefits	22,768	22,692	45,461
Supplies, materials, and other	8,757	2,867	11,624
Repair and maintenance	63	150	213
Insurance	5,915	5,890	11,805
Utilities	9,804	8,233	18,036
Other services and support	6,385	10,010	16,395
Depreciation	92,905	38,081	130,987
TOTAL OPERATING EXPENSES	<u>146,597</u>	<u>87,923</u>	<u>234,519</u>
OPERATING INCOME (LOSS)	(10,697)	43,130	32,433
NON-OPERATING REVENUES (EXPENSES):			
Interest income	3,002	2,596	5,598
Interest expense	(43,614)	(10,536)	54,150
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(40,612)</u>	<u>(7,940)</u>	<u>(48,552)</u>
NET INCOME (LOSS)	(51,309)	35,190	(16,119)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	<u>(502,533)</u>	<u>305,415</u>	<u>(197,118)</u>
ADJUSTMENTS TO RETAINED EARNINGS:			
Amortization on contributed capital	<u>78,829</u>	<u>11,807</u>	<u>90,636</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ (475,013)</u>	<u>\$ 352,412</u>	<u>\$ (122,601)</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CHASELL
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended March 31, 2007

	Enterprise Funds		
	Water System	Sewer System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 126,088	\$ 120,450	\$ 246,538
Payments to suppliers	(8,700)	(3,063)	(11,763)
Payments to employees	(23,042)	(22,628)	(45,670)
Other receipts (payments)	(20,650)	10,729	(9,921)
Net cash provided by operating activities	<u>73,696</u>	<u>105,488</u>	<u>179,184</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	0	(708,578)	(708,578)
Acquired debt	0	714,000	714,000
Principal paid on capital debt	(20,000)	(16,000)	(36,000)
Interest paid on capital debt	(43,614)	(10,536)	(54,150)
Net cash (used) by capital and related financing activities	<u>(63,614)</u>	<u>(21,114)</u>	<u>(84,728)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>3,002</u>	<u>2,597</u>	<u>5,599</u>
Net cash provided by investing activities	<u>3,002</u>	<u>2,597</u>	<u>5,599</u>
Net (decrease) in cash and cash equivalents	13,084	86,971	100,055
Cash and cash equivalents - beginning of year	203,376	108,049	311,425
Cash and cash equivalents - ending of year	<u>\$ 216,460</u>	<u>\$ 195,020</u>	<u>\$ 411,480</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (10,697)	\$ 43,130	\$ 32,433
Depreciation expense	92,905	38,081	130,986
Change in assets and liabilities			
Receivables, net	(8,328)	(6,841)	(15,169)
Accounts and other payables	57	(196)	(139)
Other liabilities	0	31,250	31,250
Accrued expenses	(241)	64	(177)
Net cash provided by operating activities	<u>\$ 73,696</u>	<u>\$ 105,488</u>	<u>\$ 179,184</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CHASSELL
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
March 31, 2007

	<u>Fiduciary Funds</u>
ASSETS:	
Cash	\$ 12,924
 TOTAL ASSETS	 \$ 12,924
 LIABILITIES:	
Due to General Fund	\$ 1
Due to other governmental units	12,923
 TOTAL LIABILITIES	 \$ 12,924

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

The Township of Chassell, Michigan, was organized in 1888. The Township operates under an elected board of five members. In accordance with NCGA Statements 3 and 7, certain other governmental organizations are not considered to be part of the Township entity for financial reporting purposes. The criteria established by NCGA for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Chassell conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

REPORTING ENTITY

The Township of Chassell is incorporated under the laws of the State of Michigan and operates under an elected council form of government.

There are no other governmental units within the Township that are controlled by, or dependent upon the Township's Board of Trustees. In accordance with NCGA Statements 3 and 7, control by, or dependence on the Township, was determined on the basis of appointment of the governing body or governing authority budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Township, obligation of the Township to finance any deficits that may occur, surplus funds, and scope of public service.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Township as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements exclude fiduciary activities such as trust and agency funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each different identifiable activity of the business-type activities of the Township and for each governmental program. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the Township.

Internal activity is limited to interfund transfers which are eliminated to avoid "doubling up" revenues and expenses. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue and capital projects and the restrictions on their net asset use.

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements - Fund financial statements report detailed information about the Township. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The two major governmental funds are each presented in a single column on the governmental fund financial statements.

The following fund types are used by the Township:

Governmental Funds - The focus of the governmental funds' measurement (in the fund statements) is upon determination of the financial position (sources, uses, and balances of financial resources) rather than upon net income.

The following is a description of the major governmental funds of the Township:

General Fund - The General Fund is the government's primary operating fund. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund. During the current fiscal year, the fire protection fund was eliminated and merged with the general fund, increasing the fund balance by \$3,578.

Road Improvement - The road improvement fund is used to account for property taxes restricted for road repair and maintenance.

The following is a description of the non-major governmental fund of the Township:

Liquor Law Enforcement - This fund accounts for all activity in connection with liquor law enforcement as required by the State of Michigan and is funded by the same.

Parks and Recreation - The parks and recreation fund is used for recreation and culture activities which is financed through various charges and miscellaneous local sources.

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Water and Sewer Funds are major enterprise funds of the Township.

Fiduciary Funds - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Township programs. The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Fiduciary funds are not included in the government-wide statements.

The following is a description of the fiduciary funds:

Current Tax Collection Fund - The Current Tax Collection Fund accounts for collection and disbursement of property tax collections.

Delinquent Tax Collection Fund - The Delinquent Tax Collection Fund accounts for collection and disbursements of delinquent taxes and deposits due to other units and individuals.

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrual Method

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

Other Accounting Policies

Cash and Cash Equivalents - The Township's cash and cash equivalents include checking, money market, certificates of deposits, and savings accounts.

The Township reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the Township to invest in U.S. government obligations, certificates of deposit, commercial paper, repurchase agreements, bankers acceptances, and with some restrictions, mutual funds. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan. The Township does have an investment policy that meets state statutory regulations.

Property Taxes - Property taxes are levied on December 1. The Township collects its own property taxes until February 28, at which time collection is turned over to Houghton County for collection.

For the year ended March 31, 2007, the Township levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
Township Operating	1.2645
Road	1.9455

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted assets - Certain cash accounts are classified as restricted assets on the balance sheet because their use is limited.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory

The Township utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Township does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements

Capital Assets

Capital assets, which include land, buildings, equipment, water/sewer improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Vehicles	5-10 years
Equipment	5-10 years

Fund Equity - The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distributions. Reserved fund balance for governmental funds represent that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spending resources. Reserved retained earnings for proprietary funds represent the net assets that have been legally identified for specific purposes.

Contributed capital - The Township follows the policy of reducing contributed capital in the water and sewer funds for an amount equal to the yearly depreciation on assets acquired or constructed with such contributed capital. This policy is based on the premise that future replacement of these facilities will be funded by the users who benefit from the facilities and not current users through the current rate structure. At March 31, 2007, Federal, State, and Local contributed capital of \$3,111,662 has been reduced to \$3,034,958 as of March 31, 2007. The current year amortization is \$90,636.

Accrued Benefits

The liabilities for accrued benefits reported in the district-wide statements in the amount of \$8,585, consisted of sick leave and vacation balances.

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Township follows these procedures in establishing the budgetary data:

- a. Each February, the Township Supervisor prepares a proposed operating budget for the fiscal year commencing the following April 1, and submits this proposed budget to the Township Board of Trustees at a special meeting in March.
- b. The Township Board of Trustees reviews the proposed budget, which includes proposed expenditures and the means of financing them.
- c. Pursuant to the statute, the proposed budget is submitted to the Township at a public hearing, at which time public comment is invited. The final budget is formally adopted at a subsequent board meeting.
- d. The Board of Trustees reviews the budget quarterly during the fiscal year and makes formal amendments when appropriate.
- e. Budget appropriation's lapse at the end of the fiscal year.

Budgetary amounts reported herein are as originally adopted, or as amended by the Township Board throughout the operating year.

In accordance with the State of Michigan Budgeting and Accounting Act, the Township must adopt an annual operating budget for the General Fund.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

NOTE C - CASH AND INVESTMENTS

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2007, \$243,861 of the Township's bank balance of \$898,653 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

The Township will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Township does business.

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE C - CASH AND INVESTMENTS (Continued)

At year-end, the Township's cash deposits (checking, savings and certificates of deposit) were reported in the basic financial statements in the following categories:

	Governmental Activities	Proprietary Funds	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 469,452	\$ 411,480	\$ 12,924	\$ 893,856

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking, savings and certificates of deposit)	\$ 893,556
Petty cash and cash on hand	300
Total	\$ 893,856

Investments

The investment of the Township's funds is governed by state statutes. In general, state statutes provide that the Township is authorized to invest its funds in certificates of deposit, savings accounts, and deposit accounts in a bank which is a member of the Federal Deposit Insurance Corporation. In addition, it may also invest in bonds, securities, and other obligations of the United States in which the principal and interest is fully guaranteed by the United States, and investments in commercial paper rated at prime at the time of purchase and which mature not more than 270 days after the date of purchase.

The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

1. Insured or registered, or securities held by the entity or its agent in the entity's name.
2. Uninsured and unregistered, with securities held by the counter party's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by the counter party or by its trust department or agent but not in the entity's name.

The Township had no investments as of March 31, 2007. The Township does have an investment policy that meets state statutory regulations.

NOTE D - INTER-FUND RECEIVABLES AND PAYABLES

The amounts of inter-fund receivables and payables at March 31, 2007 are as follows:

	Interfund Receivable		Interfund Payable
General Fund	\$ 49,719	Fire Fund	\$ 0
		Water Fund	29,237
		Sewer Fund	20,482
Subtotal	49,719	Subtotal	49,719
Liquor Law	440	General Fund	25,236
Road Fund	24,796		
	25,236		25,236
Total	\$ 74,955		\$ 74,955

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE E - RECEIVABLES

The detail of receivables at March 31, 2007 are as follows:

<u>Receivables</u>	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Total Primary Government</u>
Accounts	\$ 0	\$ 0	\$ 16,000	\$ 16,000
Taxes	3,280	5,047	0	8,327
Total receivables	<u>\$ 3,280</u>	<u>\$ 5,047</u>	<u>\$ 16,000</u>	<u>\$ 24,327</u>

NOTE F - CAPITAL ASSETS

Capital asset activity of the Township's governmental activities was as follows:

	<u>Balance 03/31/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 03/31/07</u>
Capital assets being depreciated:				
Building and additions	\$ 835,600	\$ 0	\$ 0	\$ 835,600
Equipment and machinery	23,000	0	0	23,000
Land improvements	0	159,107	0	159,107
Vehicles	330,000	0	0	330,000
Subtotal	<u>1,188,600</u>	<u>159,107</u>	<u>0</u>	<u>1,347,707</u>
Accumulated depreciation:				
Building and additions	448,425	20,890	0	469,315
Equipment and machinery	14,429	1,428	0	15,857
Land improvements	0	0	0	0
Vehicles	123,000	23,000	0	146,000
Subtotal	<u>585,854</u>	<u>45,318</u>	<u>0</u>	<u>631,172</u>
Net capital assets being depreciated	<u>602,746</u>	<u>113,789</u>	<u>0</u>	<u>716,535</u>
Net capital assets	<u>\$ 602,746</u>	<u>\$ 113,789</u>	<u>\$ 0</u>	<u>\$ 716,535</u>

Depreciation expense was charged to activities of the Township as follows:

Governmental activities	
General government	\$ 35,348
Parks and recreation	9,970
Total governmental activities	<u>\$ 45,318</u>

The property, plant, and equipment in Township business-type funds at March 31, 2007 are summarized as follows:

<u>WATER FUND</u>	<u>Balance 4/01/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/2007</u>
Land	\$ 100,879	\$ 0	\$ 0	\$ 100,879
Capital assets - water system	3,731,428	0	0	3,731,428
Accumulated depreciation - water system	637,208	92,906	0	730,114
Net capital assets being depreciated	<u>3,094,220</u>			<u>3,001,314</u>
Net capital assets	<u>\$ 3,195,099</u>			<u>\$ 3,102,193</u>

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE F - CAPITAL ASSETS (Continued)

SEWER FUND	Balance 4/01/2006	Additions	Deletions	Balance 3/31/2007
Land	\$ 20,506	\$ 0	\$ 0	\$ 20,506
Capital assets - sewer system	1,245,201	\$ 708,578	\$ 0	1,953,779
Accumulated depreciation - sewer system	739,382	\$ 38,081	\$ 0	777,463
Net capital assets being depreciated	505,819			1,176,316
Net capital assets	\$ 526,325			\$ 1,196,822

NOTE G - LONG-TERM DEBT

Sewage Disposal Bonds - 1972 Issues

Sewage Disposal System revenue bonds were issued on May 18, 1972, in the amount of \$189,000 and on September 28, 1972 in the amount of \$140,000 for the purpose of acquiring and constructing the Township's sewage disposal system. These bonds are self-liquidating and are not a general obligation of the Township, but are payable both as to principal and interest solely from the revenues of the Sewage Disposal System. The bonds bear an interest rate of 4.75% for the May 18 issue and 5.00% for the September 28 issue per annum.

Bonds maturing in the years 1992 to 2011, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Township, on any interest payment date after January 1, 1992 at par plus accrued interest. The payment schedule for the bonds is as follows:

SEWAGE DISPOSAL SYSTEM FUND
SCHEDULE OF SEWAGE DISPOSAL - 1972 ISSUE
SYSTEM REVENUE BONDS

Fiscal Year	January, 1		July, 1		Total
	Interest	Principal	Interest		
2007-08	\$ 1,675	\$ 16,000	\$ 1,675	\$	19,350
2008-09	1,275	17,000	1,275		19,550
2009-10	850	17,000	850		18,700
2010-11	425	17,000	425		17,850
TOTALS	\$ 4,225	\$ 67,000	\$ 4,225	\$	75,450

Water Supply System Bonds

Water Supply System revenue bonds were issued on September 28, 1978, in the amount of \$275,000 for the purpose of acquiring and constructing improvements and additions to the Township's Water Supply System. The bonds are self-liquidating and are not a general obligation of the Township, but are payable both as to principal and interest solely from the revenues of the Water Supply System. The bonds bear an interest rate of 5.00% per annum.

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE G - LONG-TERM DEBT (Continued)

Bonds maturing in the years 1992 to 2010, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Township, on any interest payment date after January 1, 1992 at par plus accrued interest. The payment schedule for the bonds is as follows:

<u>1978 WATER SUPPLY SYSTEM FUND</u>				
<u>SCHEDULE OF WATER SUPPLY SYSTEM REVENUE BONDS</u>				
Fiscal Year	January, 1		July, 1	
	Interest	Principal	Interest	Total
2007-08	\$ 1,000	\$ 10,000	\$ 750	\$ 11,750
2008-09	750	10,000	500	11,250
2009-10	500	10,000	250	10,750
2010-11	250	5,000	0	5,250
TOTALS	<u>\$ 2,500</u>	<u>\$ 35,000</u>	<u>\$ 1,500</u>	<u>\$ 39,000</u>

2003 Water Supply System Junior Lien Revenue Bond

The 2003 Water Supply System Junior Lien Revenue Bond was issued on January 27, 2004, in the amount of \$940,000 for the purpose of acquiring and constructing improvements and additions to the Township's Water Supply System. The bonds are self-liquidating and are not a general obligation of the Township, but are payable both as to principal and interest solely from the revenues of the Water Supply System. The bonds bear an interest rate of 4.50% per annum.

Bonds maturing in the years 2004 to 2043, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Township, on any interest payment date on or after May 1, 2004 at par plus accrued interest.

The payment schedule for the bonds is as follows:

<u>2003 JUNIOR LIEN</u>				
<u>SCHEDULE OF WATER SUPPLY REVENUE BOND</u>				
Fiscal Year	January, 1		July, 1	
	Interest	Principal	Interest	Total
2007-2008	\$ 20,520	\$ 10,000	\$ 20,295	\$ 50,815
2008-2009	20,295	10,000	20,070	50,365
2009-2010	20,070	11,000	19,823	50,893
2010-2011	19,823	11,000	19,575	50,398
2011-2012	19,575	12,000	19,305	50,880
2012-2013	19,305	12,000	19,035	50,340
2013-2014	19,035	13,000	18,743	50,778
2014-2015	18,743	14,000	18,428	51,171
2015-2016	18,428	14,000	18,113	50,541
2016-2017	18,113	15,000	17,775	50,888
2017-2018	17,775	16,000	17,415	51,190
2019-2023	83,250	89,000	81,248	253,498
2024-2028	72,338	110,000	69,863	252,201
2029-2033	58,770	138,000	55,665	252,435
2034-2038	41,805	171,000	37,958	250,763
2039-2043	20,700	215,000	15,863	251,563
2043-2044	1,148	51,000	0	52,148
TOTALS	<u>\$ 489,693</u>	<u>\$ 912,000</u>	<u>\$ 469,174</u>	<u>\$ 1,870,867</u>

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE G- LONG-TERM DEBT (Continued)

2006 Sewage Disposal System Junior Lien Revenue Bond

The 2006 Sewage Disposal System Junior Lien Revenue Bond was issued on May 11, 2006, in the amount of \$714,000 for the purpose of acquiring and constructing improvements and additions to the Township's Sewage Disposal System. The bonds are self-liquidating and are not a general obligation of the Township, but are payable both as to principal and interest solely from the revenues of the Sewage Disposal System. The bonds bear an interest rate of 4.375% per annum.

Principal instalments of this bond is subject to prepayment prior to maturity, in inverse chronological order, at the option of the Township, on any interest payment date on or after November 1, 2006, at par and accrued interest to the date fixed for prepayment.

The proceeds from this bond issue are in the process of being distributed to the Township. Through June 26, 2006, \$175,000 of the revenue bond has been disbursed to the Township. The payment schedule for the amount of the bond is estimated based on expected dates of release of loan funds, and is as follows:

2006 JUNIOR LIEN
SCHEDULE OF SEWAGE DISPOSAL REVENUE BOND

Fiscal Year	May 1		November 1	
	Interest	Principal	Interest	Total
2007-2008	\$ 15,706	\$ 7,000	\$ 15,553	\$ 38,259
2008-2009	15,553	7,000	15,400	37,953
2009-2010	15,400	7,000	15,247	37,647
2010-2011	15,247	8,000	15,072	38,319
2011-2012	15,072	8,000	14,897	37,969
2012-2013	14,897	8,000	14,722	37,619
2013-2014	14,722	9,000	14,525	38,247
2014-2015	14,525	9,000	14,328	37,853
2015-2016	14,328	10,000	14,109	38,437
2016-2017	14,109	10,000	13,891	38,000
2017-2018	13,891	10,000	13,672	37,563
2019-2023	65,878	59,000	64,597	189,475
2024-2028	58,778	74,000	57,159	189,937
2029-2033	49,941	92,000	47,928	189,869
2034-2038	38,938	115,000	36,422	190,360
2039-2043	25,200	143,000	22,072	190,272
2044-2047	7,984	138,000	4,878	150,862
TOTALS	<u>\$ 410,169</u>	<u>\$ 714,000</u>	<u>\$ 394,472</u>	<u>\$ 1,518,641</u>

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE G - LONG-TERM DEBT (Continued)

SUMMARY SCHEDULE OF LONG-TERM DEBT

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007-2008	\$ 77,174	\$ 43,000	\$ 120,174
2008-2009	75,118	44,000	119,118
2009-2010	72,990	45,000	117,990
2010-2011	70,817	41,000	111,817
2011-2012	68,849	20,000	88,849
2012-2013	67,959	20,000	87,959
2013-2014	67,025	22,000	89,025
2014-2015	66,024	23,000	89,024
2015-2016	64,978	24,000	88,978
2016-2017	63,888	25,000	88,888
2017-2018	62,753	26,000	88,753
2019-2023	294,973	148,000	442,973
2024-2028	258,138	184,000	442,138
2029-2033	212,304	230,000	442,304
2034-2038	155,123	286,000	441,123
2039-2043	83,835	358,000	441,835
2044-2047	14,010	189,000	203,010
TOTALS	\$ 1,775,958	\$ 1,728,000	\$ 3,503,958

The following is a summary of the changes in long-term debt principal for the year ended March 31, 2007:

	<u>Balance 03/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 03/31/07</u>	<u>Current Portion</u>
Sewage Disposal Bond	\$ 83,000	\$ 0	\$ 16,000	\$ 67,000	\$ 16,000
Sewage Disposal System-2006	0	714,000	0	714,000	7,000
Water Supply Bond - 1978	45,000	0	10,000	35,000	10,000
Water Supply Bond - 2003	922,000	0	10,000	912,000	10,000
TOTALS	\$ 1,050,000	\$ 714,000	\$ 36,000	\$ 1,728,000	\$ 43,000

NOTE H - BOND PAYMENT AND RESERVE REQUIREMENTS

The 1978 Water Supply System Revenue Bonds require that the Township establish a bond reserve account to be used for payment on the bonds in the event of default. At March 31, 2007, there was \$20,220 in the Bond Reserve account which is in compliance with bond requirements.

The ordinance authorizing issuance of the 2003 Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Fund - Quarterly transfers are to be made in the sum of at least \$1,300 per quarter, until there is accumulated in such fund the aggregate sum of \$52,000.

Bond and Interest Redemption Fund - Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

Repair, Replacement and Improvement Fund - Quarterly transfers are to be made in the sum of not less than \$4,231.25, less the amount, if any, deposited in the Bond Reserve Fund.

TOWNSHIP OF CHASSELL
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE H - BOND PAYMENT AND RESERVE REQUIREMENTS (Continued)

At March 31, 2007 the Township has established these restricted cash accounts, as required:

	<u>Requirements</u>	<u>Amount Funded</u>
Bond reserve fund	\$ 16,900	\$ 17,038
Bond and interest redemption fund	12,872	83,553
Repair, replacement, and improvement fund	<u>38,106</u>	<u>38,534</u>
	<u>\$ 67,878</u>	<u>\$ 139,125</u>

NOTE I - DEFINED CONTRIBUTION PLAN

The Township is a member of the John Hancock Defined Contribution Pension Plan for Governmental Employees and provides pension benefits for all of its eligible employees through this plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Fire Chief, Constable, Department of Public Works Employees working thirty hours or more per week, and elected Township officials are eligible to participate from their date of employment. For the Fire Chief, Constable, and elected officials, the policy requires a contribution equal to 4% of compensation from the employer and employee. For Department of Public Works Employees working 30 or more hours per week, the policy requires a contribution equal to 6% of compensation from the employer. Voluntary contributions may be made up to a maximum of 10% of annual compensation. Township contributions for each employee and interest allocated to the employee's account are fully vested. Any amount contributed voluntarily by the employee under the plan, plus any interest earnings, are fully vested at the time of the contribution or crediting of investment earnings. The Township made contributions amounting to \$5,440.

NOTE J - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Township maintained two Enterprise Funds which provided water and sewer services. Segment information for the year ended March 31, 2007 is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>
Operating Revenues	\$ 131,052	\$ 135,900
Depreciation	\$ 38,081	\$ 92,905
Operating Income (Loss)	\$ 43,130	\$ (10,697)
Non-operating Revenue (Expense)	\$ (7,940)	\$ (40,612)
Net Income (Loss)	\$ 35,190	\$ (51,309)
Property, Plant and Equipment:		
Additions	\$ 708,578	\$ 0
Net Working Capital (Deficit)	\$ 43,859	\$ (61,296)
Total Assets	\$ 1,399,098	\$ 3,327,397
Total Equity	\$ 563,573	\$ 2,348,784

NOTE K- RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

TOWNSHIP OF CHASELL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended March 31, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Taxes	\$ 59,000	\$ 59,000	\$ 71,443	\$ 12,443
State	139,000	139,000	137,169	(1,831)
Administration and collection fees	18,000	18,000	12,669	(5,331)
Charges for services	54,200	55,200	55,828	628
Interest	3,500	3,500	4,624	1,124
Other	10,000	29,500	30,154	654
TOTAL REVENUE	283,700	304,200	311,887	7,687
EXPENDITURES:				
Township board	12,650	12,650	8,618	4,032
Township supervisor	4,600	4,600	4,206	394
Elections	4,000	4,000	2,654	1,346
Assessor	10,100	10,100	12,101	(2,001)
Clerk	11,560	11,560	9,353	2,207
Board of review	1,850	1,850	1,190	660
Treasurer	16,100	16,100	16,069	31
Town hall	46,900	46,900	44,191	2,709
Cemetery	7,330	7,330	7,053	277
Constable	600	600	650	(50)
Fire protection	13,850	13,850	14,724	(874)
Department of public works and streets	216,500	223,500	239,624	(16,124)
Sanitation/Garbage	53,000	53,000	47,571	5,429
Zoning	2,000	2,000	1,650	350
Parks and recreation	30,800	44,300	48,722	(4,422)
Other activities	39,800	39,800	33,274	6,526
TOTAL EXPENDITURES	471,640	492,140	491,649	491
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(187,940)	(187,940)	(179,763)	8,177
OTHER FINANCING SOURCES (USES)				
Operating transfers out	-	-	-	-
NET CHANGE IN FUND BALANCE	\$ (187,940)	\$ (187,940)	(179,763)	\$ 8,177
FUND BALANCE - BEGINNING OF YEAR			356,618	
FUND BALANCE - END OF YEAR			\$ 176,855	

TOWNSHIP OF CHASELL
BUDGETARY COMPARISON SCHEDULE - ROAD FUND
For the Year Ended March 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final to Actual</u>
REVENUES:				
Taxes	\$ 80,300	\$ 84,300	\$ 89,225	\$ 4,925
Interest	2,500	8,000	8,114	114
TOTAL REVENUE	<u>82,800</u>	<u>92,300</u>	<u>97,339</u>	<u>5,039</u>
EXPENDITURES:				
Chargeback	100	100	-	100
Contracted services	30,000	37,000	47,192	(10,192)
Repairs and maintenance	17,000	20,000	19,809	191
TOTAL EXPENDITURES	<u>47,100</u>	<u>57,100</u>	<u>67,001</u>	<u>(9,901)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	35,700	35,200	30,338	(4,862)
OTHER FINANCING SOURCES (USES)				
Operating transfers out	-	-	-	-
NET CHANGE IN FUND BALANCE	<u>\$ 35,700</u>	<u>\$ 35,200</u>	30,338	<u>\$ (4,862)</u>
FUND BALANCE - BEGINNING OF YEAR			<u>278,770</u>	
FUND BALANCE - END OF YEAR			<u>\$ 309,108</u>	

SUPPLEMENTAL FINANCIAL INFORMATION

TOWNSHIP OF CHASELL
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
Years Ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
REVENUES:		
TAXES:		
Property Tax	\$ 67,263	\$ 50,749
Commerical Forest Reserve (CFR)	4,180	4,004
Total taxes	<u>71,443</u>	<u>54,753</u>
STATE:		
State shared revenues	137,169	138,421
Total state	<u>137,169</u>	<u>138,421</u>
FEDERAL:		
Federal grants	<u>-</u>	<u>87,353</u>
ADMINISTRATION AND COLLECTION FEES	<u>12,669</u>	<u>14,701</u>
CHARGES FOR SERVICES:		
Cemetery fees	2,300	4,175
Garbage Collection	53,528	55,898
Total charges for services	<u>55,828</u>	<u>60,073</u>
INTEREST	<u>4,624</u>	<u>9,766</u>
OTHER:		
Contributions	5,000	1,293
Rents and Royalties	13,236	4,118
Zoning permits	506	593
Reimbursements	6,283	4,079
Franchise fees	5,129	4,998
Total other	<u>30,154</u>	<u>15,081</u>
TOTAL REVENUES	<u>311,887</u>	<u>380,148</u>
EXPENDITURES:		
TOWNSHIP BOARD:		
Salaries	2,400	3,000
Fees	1,891	1,308
Office supplies	853	444
Printing and publishing	668	1,765
Professional services	2,380	28,777
Miscellaneous	426	1,863
Total township board	<u>8,618</u>	<u>37,157</u>

TOWNSHIP OF CHASELL
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
(Continued)
Years Ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
SUPERVISOR:		
Salaries	4,200	4,550
Supplies, materials, and other	6	-
Transportation	-	65
Fees	-	253
Total supervisor	<u>4,206</u>	<u>4,868</u>
ELECTIONS:		
Supplies, materials, and other	467	839
Printing and publishing	232	63
Contracted services	1,955	509
Total elections	<u>2,654</u>	<u>1,411</u>
ASSESSOR:		
Supplies, materials, and other	3,327	1,328
Contract Services	8,774	8,681
Total Assessor	<u>12,101</u>	<u>10,009</u>
CLERK:		
Salaries	8,775	9,648
Supplies, materials, and other	578	1,329
Travel expenses	-	260
Total clerk	<u>9,353</u>	<u>11,237</u>
BOARD OF REVIEW:		
Office supplies	140	-
Contracted services	1,050	1,150
Total board of review	<u>1,190</u>	<u>1,150</u>
TREASURER:		
Salaries	13,431	14,107
Office supplies	691	6,610
Printing and publishing	1,947	3,749
Travel	-	65
Total treasurer	<u>16,069</u>	<u>24,531</u>

TOWNSHIP OF CHASELL
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
(Continued)
Years Ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
TOWN HALL:		
Salaries	20,544	25,787
Employee benefits	8,036	7,806
Supplies, materials, and other	1,842	804
Utilities	11,466	10,050
Repairs and maintenance	-	1,229
Capital outlay	<u>2,303</u>	<u>-</u>
Total town hall	<u>44,191</u>	<u>45,676</u>
CEMETERY:		
Salaries	2,597	2,436
Supplies, materials, and other	678	1,667
Utilities	278	309
Repairs and maintenance	1,151	-
Contracted services	1,198	8,617
Capital outlay	<u>1,151</u>	<u>2,300</u>
Total cemetery	<u>7,053</u>	<u>15,329</u>
CONSTABLE:		
Salaries	<u>650</u>	<u>575</u>
FIRE PROTECTION:		
Salaries	2,500	1,300
Supplies, materials, and other	4,990	34,168
Utilities	720	720
Travel expenses	-	1,875
Repairs and maintenance	212	540
Capital outlay	6,302	63,905
Miscellaneous	<u>-</u>	<u>30</u>
Total fire protection	<u>14,724</u>	<u>102,538</u>
DEPARTMENT OF PUBLIC WORKS AND STREETS:		
Salaries	3,516	1,777
Supplies, materials, and other	2,249	2,342
Utilities	14,571	13,665
Repairs and maintenance	59	582
Contracted services	58,712	53,781
Capital outlay	159,107	-
Miscellaneous	<u>1,409</u>	<u>3,343</u>
Total department of public works and streets	<u>239,624</u>	<u>75,490</u>

TOWNSHIP OF CHASELL
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
(Continued)
Years Ended March 31, 2007 and 2006

SANITATION/GARBAGE:	<u>2007</u>	<u>2006</u>
Salaries	12,237	13,247
Supplies, materials, and other	3,255	4,928
Repairs and maintenance	4,039	1,236
Contracted services	27,273	31,111
Miscellaneous	768	-
Total sanitation/garbage	<u>47,571</u>	<u>50,522</u>
 ZONING:		
Supplies, materials, and other	150	500
Contracted services	<u>1,500</u>	<u>1,500</u>
Total zoning	<u>1,650</u>	<u>2,000</u>
 RECREATION:		
Salaries	5,948	5,702
Supplies, materials, and other	2,055	2,816
Utilities	3,372	2,591
Repairs and maintenance	173	4,887
Contracted services	4,632	13,579
Capital outlay	32,481	-
Miscellaneous	61	-
Total recreation	<u>48,722</u>	<u>29,575</u>
 OTHER ACTIVITIES:		
Payroll taxes	8,341	8,918
Employee benefits	5,552	4,000
Insurance	11,180	16,805
Professional services	7,850	3,000
Capital outlay	-	1,808
Miscellaneous	351	1,624
Total other activities	<u>33,274</u>	<u>36,155</u>
 TOTAL EXPENDITURES	<u>491,649</u>	<u>448,223</u>

TOWNSHIP OF CHASSELL
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
(Continued)
Years Ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITUR	(179,763)	(68,075)
OTHER FINANCING SOURCES (USES)		
Gain/Loss on Fixed Assets	-	4,800
Transfer in (out)	<u>-</u>	<u>(1,828)</u>
Total other financing sources	<u>-</u>	<u>2,972</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	(179,763)	(65,103)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>356,618</u>	<u>425,300</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 176,855</u>	<u>\$ 360,197</u>

TOWNSHIP OF CHASELL
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEETS
Year ended March 31, 2007
With Comparative Totals at March 31, 2006

	Road Improvement Fund	Park and Recreation Fund	Liquor Law Enforcement	Totals (Memorandum Only)	2006
ASSETS:					
Cash	\$ 279,265	\$ 8,565	\$ 2,683	\$ 290,513	\$ 293,148
Taxes receivable	5,047	-	-	5,047	5,712
Due from other funds	24,796	-	440	25,236	426
TOTAL ASSETS	\$ 309,108	\$ 8,565	\$ 3,123	\$ 320,796	\$ 299,286
LIABILITIES:					
Due to other funds	\$ -	\$ -	\$ -	\$ -	7,376
Accrued salaries	-	-	50	50	22
Accrued expenses	-	-	4	4	2
Deferred revenue	-	-	-	-	5,712
TOTAL LIABILITIES	-	-	54	54	13,112
FUND EQUITY:					
Fund Balance	309,108	8,565	3,069	320,742	286,174
TOTAL LIABILITIES AND FUND EQUITY	\$ 309,108	\$ 8,565	\$ 3,123	\$ 320,796	\$ 299,286

TOWNSHIP OF CHASELL
SPECIAL REVENUE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES
Year ended March 31, 2007
With Comparative Totals at March 31, 2006

	Road Improvement Fund	Park and Recreation Fund	Liquor Law Enforcement	Totals (Memorandum Only)	2006
REVENUES:					
Taxes	\$ 89,225	\$ -	\$ -	\$ 89,225	\$ 78,279
State revenue	-	-	879	879	904
Interest	8,114	96	25	8,235	5,384
Other revenue	-	-	14	14	-
TOTAL REVENUES	<u>97,339</u>	<u>96</u>	<u>918</u>	<u>98,353</u>	<u>84,567</u>
EXPENDITURES:					
Salaries	-	-	353	353	322
Supplies, materials, and other	-	2	7	9	397
Contracted services	47,192	-	-	47,192	-
Repairs and maintenance	<u>19,809</u>	<u>-</u>	<u>-</u>	<u>19,809</u>	<u>7,372</u>
TOTAL EXPENDITURES	<u>67,001</u>	<u>2</u>	<u>360</u>	<u>67,363</u>	<u>8,091</u>
EXCESS OF REVENUES (EXPENDITURES)	30,338	94	558	30,990	76,476
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>278,770</u>	<u>8,471</u>	<u>2,511</u>	<u>289,752</u>	<u>213,275</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 309,108</u>	<u>\$ 8,565</u>	<u>\$ 3,069</u>	<u>\$ 320,742</u>	<u>\$ 289,752</u>

TOWNSHIP OF CHASSELL
ENTERPRISE FUNDS
COMBINING BALANCE SHEETS
Year ended March 31, 2007
With Comparative Totals at March 31, 2006

	Water Fund	Sewer Fund	Totals (Memorandum Only)	2006
ASSETS:				
Current assets:				
Cash	\$ (18,426)	\$ 107,128	\$ 88,702	\$ 92,841
Accounts receivable	8,744	7,256	16,000	831
Restricted cash	234,886	87,892	322,778	218,584
Fixed assets	3,832,307	1,974,285	5,806,592	5,098,014
Accumulated depreciation	(730,113)	(777,463)	(1,507,577)	(1,376,589)
TOTAL ASSETS:	<u>\$ 3,327,397</u>	<u>\$ 1,399,098</u>	<u>\$ 4,726,496</u>	<u>\$ 4,033,681</u>
LIABILITIES				
Accounts payable	\$ 267	\$ 246	\$ 513	\$ 652
Due to other funds	29,237	20,482	49,719	49,719
Current maturities on bond payable	20,000	16,000	36,000	30,000
Bonds payable- net of current maturities	927,000	765,000	1,692,000	1,020,000
Accrued salaries	1,651	1,402	3,053	3,193
Deferred revenue	-	31,250	31,250	-
Accrued expenses	458	1,145	1,603	1,673
TOTAL LIABILITIES	<u>978,614</u>	<u>835,525</u>	<u>1,814,139</u>	<u>1,105,237</u>
FUND EQUITY:				
Contributed capital	2,823,797	211,161	3,034,958	3,111,662
Retained earnings	(475,013)	352,412	(122,601)	(183,218)
TOTAL FUND EQUITY	<u>2,348,784</u>	<u>563,573</u>	<u>2,912,357</u>	<u>2,928,444</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 3,327,397</u>	<u>\$ 1,399,098</u>	<u>\$ 4,726,496</u>	<u>\$ 4,033,681</u>

TOWNSHIP OF CHASELL
ENTERPRISE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
Year Ended March 31, 2007
With Comparative Totals at March 31, 2006

	Water Fund	Sewer Fund	Totals (Memorandum Only)	2006
OPERATING REVENUES:				
Federal and state grants	\$ -	\$ -	\$ -	\$ 16,900
Charges for services	133,176	127,290	260,466	212,000
Connection fees	1,240	-	1,240	1,062
Other	1,484	3,762	5,246	2,124
TOTAL OPERATING REVENUES	135,900	131,052	266,952	232,086
EXPENSES:				
Salaries	16,854	16,715	33,569	35,301
Employee benefits	5,914	5,977	11,891	12,878
Supplies, materials, and other	7,198	1,269	8,467	6,434
Office supplies	1,559	1,598	3,157	3,019
Utilities	9,804	8,233	18,036	13,503
Printing and publishing	524	2,677	3,201	1,266
Insurance	5,915	5,890	11,805	6,680
Repairs and maintenance	63	150	213	6,465
Professional services	2,048	173	2,221	6,010
Contracted services	3,620	6,652	10,272	2,486
Depreciation	92,905	38,081	130,987	120,556
Miscellaneous	193	508	701	1,202
TOTAL EXPENSES	146,597	87,923	234,519	215,800
OPERATING INCOME (LOSS)	(10,697)	43,130	32,433	16,286
NON-OPERATING REVENUES (EXPENSES):				
Interest income	3,002	2,596	5,598	4,215
Interest expense	(43,614)	(10,536)	(54,150)	(49,125)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(40,612)	(7,940)	(48,552)	(44,910)
NET INCOME (LOSS)	(51,309)	35,190	(16,119)	(28,624)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	(502,533)	305,415	(197,118)	(244,977)
ADJUSTMENTS TO RETAINED EARNINGS:				
Amortization on Contributed Capital	78,829	11,807	90,636	90,383
TOTAL ADJUSTMENTS TO RETAINED EARNINGS	78,829	(11,807)	(90,636)	(90,383)
RETAINED EARNINGS (DEFICIT), END OF YEAR	\$ (475,013)	\$ 352,412	\$ (122,601)	\$ (183,218)

TOWNSHIP OF CHASELL
TRUST AND AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended March 31, 2007

TAX COLLECTION FUND

	Balance 03/31/06	Additions	Deductions	Balance 03/31/07
ASSETS:				
Cash	\$ 1	\$ 1,497,609	\$ 1,493,666	\$ 3,944
TOTAL ASSETS	<u>\$ 1</u>	<u>\$ 1,497,609</u>	<u>\$ 1,493,666</u>	<u>\$ 3,944</u>
LIABILITIES				
Due to other funds	\$ 0	\$ 398,326	\$ 398,326	\$ 0
Due to other governmental units	1	1,099,297	1,095,354	3,944
TOTAL LIABILITIES	<u>\$ 1</u>	<u>\$ 2,198,594</u>	<u>\$ 2,190,708</u>	<u>\$ 3,944</u>

DELINQUENT TAX COLLECTION FUND

	Balance 03/31/06	Additions	Deductions	Balance 03/31/07
ASSETS:				
Cash	\$ 8,122	\$ 8,979	\$ 8,121	\$ 8,980
TOTAL ASSETS	<u>\$ 8,122</u>	<u>\$ 8,979</u>	<u>\$ 8,121</u>	<u>\$ 8,980</u>
LIABILITIES:				
Due to other funds	\$ 0	\$ 0	\$ 0	\$ 0
Due to other governmental units	8,122	8,508	7,650	8,980
TOTAL LIABILITIES	<u>\$ 8,122</u>	<u>\$ 8,508</u>	<u>\$ 7,650</u>	<u>\$ 8,980</u>

TOTAL FUNDS

	Balance 03/31/06	Additions	Deductions	Balance 03/31/07
ASSETS:				
Cash	\$ 8,123	\$ 1,506,588	\$ 1,501,787	\$ 12,924
TOTAL ASSETS	<u>\$ 8,123</u>	<u>\$ 1,506,588</u>	<u>\$ 1,501,787</u>	<u>\$ 12,924</u>
LIABILITIES:				
Due to other funds	\$ 0	\$ 0	\$ 0	\$ 0
Due to other governmental units	8,123	1,107,805	1,103,004	12,924
TOTAL LIABILITIES	<u>\$ 8,123</u>	<u>\$ 1,107,805</u>	<u>\$ 1,103,004</u>	<u>\$ 12,924</u>

FEDERAL AWARDS PROGRAMS



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable President and Members of the Village Council
Township of Chassell
Chassell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Chassell as of and for the year then ended March 31, 2007 which collectively comprise the Township's basic financial statements and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Chassell's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Chassell's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Chassell's internal control over financial reporting.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be a material weaknesses.

A control deficiency exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township of Chassell's financial statements that is more than inconsequential will not be prevented or detected by the Township of Chassell's internal control. We consider deficiencies described in the accompanying schedule of findings and responses as items to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the accompanying schedule of findings and responses, we consider items 07-01 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Chassell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses.

We noted certain matters that we reported to management of the Township of Chassell, in a separate letter dated September 28, 2007.

The Township of Chassell's response to the findings identified in our audit is described in the accompany schedule of findings and responses. We did not audit the Township of Chassell's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Township Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 28, 2007

Bruce A. Rukkila, CPA, PC
Certified Public Accountants



Bruce A Rukkila, CPA, PC



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable President and Members of the Village Council
Township of Chassell
Chassell, Michigan

Compliance

We have audited the compliance of the Township of Chassell with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2007. The Township of Chassell's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Township of Chassell's management. Our responsibility is to express an opinion on the Township of Chassell's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Township of Chassell's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Township of Chassell's compliance with those requirements.

In our opinion, the Township of Chassell complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2007.

Internal Control Over Compliance

The management of the Township of Chassell is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Township of Chassell's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Township of Chassell's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal controls. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Township of Chassell's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Township of Chassell's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Township Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 28, 2007

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

TOWNSHIP OF CHASSELL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended March 31, 2007

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Rural Utilities Service 2006 Sewage Disposal System	10.760	<u>\$ 714,000</u>

TOWNSHIP OF CHASELL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended March 31, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal Control over financial reporting:	
• Material weakness(es) identified?	Yes
• Reportable condition(s) identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133?	No
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Identification of major programs:

Name of Federal Program	<u>CFDA Number</u>
U.S. Department of Agriculture	
Water and Waste Disposal Systems for Rural Communities	
Regional Water Project - Bonds and Grant	10.760

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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SECTION II - FINANCIAL STATEMENT FINDINGS - Detailed at Schedule of Findings and Responses on page 46.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - No matters were reported.

TOWNSHIP OF CHASSELL
SCHEDULE OF FINDINGS AND RESPONSES
March 31, 2007

Significant Deficiencies

07-01 Ability to Prepare Financial Statements and Related Note Disclosures

Finding: The Township relies on its auditors to draft its financial and related disclosures in accordance with generally accepted accounting principles. Board members review and accept the financial statements on behalf of the Township. Members of the Board should remain involved in the financial reporting process to provide an oversight function.

Statement on Auditing Standards (SAS) No. 112 states that those charged with governance is defined as, "the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity." This includes overseeing the financial reporting and disclosure process. In smaller entities, such as the Township of Adams, those charged with governance may be the same people.

SAS No. 112 states that those charged with governance need to have the necessary accounting expertise and competence with respect to financial statement preparation. They must be able to prevent, detect, and correct a potential misstatement in the financial statements. In order to eliminate control deficiencies, significant deficiencies, or material weaknesses, the township should review their internal control, segregation of duties, and management's ability to prepare financial statements.

TOWNSHIP OF CHASSELL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
March 31, 2007

NOTE A - OVERSIGHT AGENCY

The U. S. Department of Agriculture is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the Township's expenditures of federal awards.

NOTE B - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.



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LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Supervisor and Board of Trustees
Township of Chassell
Chassell, Michigan

We have audited the general purpose financial statements of the Township of Chassell, for the year ended March 31, 2007, and have issued our report thereon dated September 28, 2007. As part of our audit, we made a study and evaluation of the Township's internal control structure only to the extent we considered necessary as required by generally accepted auditing standards.

Under generally accepted auditing standards, the purpose of an evaluation of the internal control structure is to establish a basis for reliance on the system in determining the nature, timing and extent of other auditing procedures and to assist in planning and performing the audit. Our audit would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

The following suggestions are submitted to assist in improving procedures and controls.

Cash

Treasurer's Cash Control Journal - According to the State of Michigan's uniform accounting procedures manual when the clerk maintains the receipts journal, it is necessary that the treasurer maintain a cash control journal where each receipt and each check is posted to the applicable fund and the cash balance reflected. The cash balance must be compared to the clerk's cash balance on a monthly basis. The treasurer must also post all entries affecting cash accounts such as transfers and the recording of interest income.

Bank Reconciliation - According to the State of Michigan's uniform accounting procedures manual all bank accounts must be reconciled on a monthly basis and the clerk's records must agree with or reconcile to the treasurer's and bank's records. The reconciliation should be prepared in duplicate on a monthly basis and one copy is kept by both the clerk and treasurer. At a minimum the clerk or treasurer should be reviewing the prepared reconciliations.

It was noted that several bank accounts were not reconciled and transfers were recorded on the books two months prior to the actual transfer being made. We recommend that in the future all cash accounts be reconciled on a monthly basis and transfers not be recorded until date of actual transfer.

We recommend that the Township of Chassell begin to implement these procedures.

Insured Deposits

We noted that approximately seventy-three percent (73%) of the Township's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend that deposits be extended to various financial institutions to increase the percent of deposits insured and to decrease the potential risk of loss to the Township.

Documentation of Board Proceedings

The following items should be documented in the board minutes as they occur: The hiring of significant new employees; details of contracts entered into; information regarding obtaining and accepting bids; transfers of funds, new or additional revenue including grants; fund balance designations; and the opening and closing of bank accounts, as well as approval of authorized signers and restrictions on accounts. It is also important, when adopting or amending the budget, to state the total revenues and expenditures approved and attach a signed copy of the budget to those minutes.

Monthly Financial Reporting

During the audit, we noted that accounting reports are not made available on a timely or accurate basis.

We believe it would be beneficial to formulate a complete accounting policies and procedures manual which would document the flow of financial information and set guidelines as to the responsibilities and time lines for the township.

Statement on Auditing Standards (SAS) No. 112

Those charged with governance is defined as, “the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.” This includes overseeing the financial reporting and disclosure process. In smaller entities, such as the Township of Chassell, those charged with governance may be the same people.

SAS No. 112 states that those charged with governance need to have the necessary accounting expertise and competence with respect to financial statement preparation. They must be able to prevent, detect, and correct a potential misstatement in the financial statements. In order to eliminate control deficiencies, significant deficiencies, or material weaknesses, the township should review their internal control, segregation of duties, and management’s ability to prepare financial statements.

Public Act 621 - Budget Over Expenditures

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the financial statements and the accompanying information.

We recommend that timely revisions be made to the budget so that these over expenditures do not occur in the future.

Water and Sewer Accounting

It is recommended that a procedures manual for the Water and Sewer billing be created. The manual should document the billing and collection processes, and meter reading practices. In addition the manual should include personnel activity, software procedures, and standardized reports.

It was noted that the water and sewer revenues recorded in the general ledger did not agree with reports generated from the water and sewer software package and are not being reconciled on a monthly basis. We recommend that the water and sewer revenues be recorded in the general ledger on a timely basis and reconciled to actual water and sewer billings on a monthly basis.

Expenditures

In order to keep the Township’s management informed regarding State of Michigan regulations, we present below a list of examples of illegal or unauthorized expenditures as defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). We recommend that the Township’s management familiarize themselves with this list in order to prevent the potential for illegal or unauthorized expenditures of the Township’s funds.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expenses for a person injured on government property

- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road constructions or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the Township.
- Extra compensation unless for part of the initial salary resolution or authorized under statutory procedures for an increase in salary.

We appreciate the opportunity to present the above suggestions and are prepared to discuss them at your convenience.

Bruce A. Rukkala, CPA, PC

Certified Public Accountants

September 28, 2007